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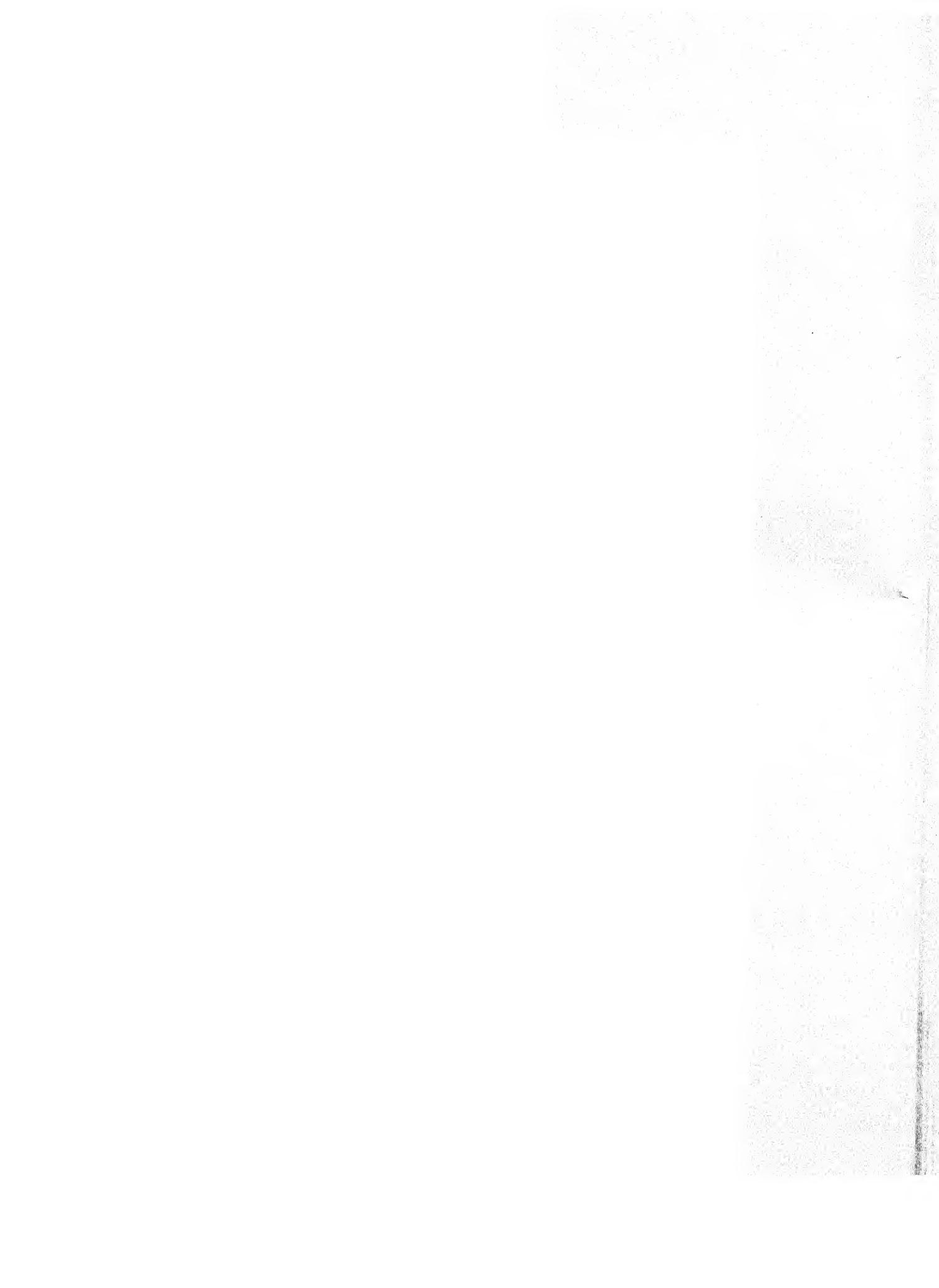
**NUMBER ONE**

## **PUBLIC DISTRIBUTION SYSTEM FOR ESSENTIAL COMMODITIES: SOME RELEVANT ISSUES**

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PUBLIC DISTRIBUTION SYSTEM FOR  
ESSENTIAL COMMODITIES: SOME RELEVANT ISSUES

G.K. Amar

Eradication of poverty has been one of the major objectives of planned efforts in India. The extent and nature of poverty, implying low incomes and low purchasing power, obtains disturbing implications with persistent rising trend in the prices and frequent scarcities of essential commodities. In this context, public distribution for assured supplies of essential commodities at low prices should assume a high priority in government programmes. In a developing economy, such as ours we need not only to produce more essential consumer goods but also develop efficient mechanisms to ensure that they reach the right places and the right people at the right time in the most economical way. A sound distribution system not only helps achieve better utilization of limited resources and acts as a stimulant of savings and investments for large number of people involved in the nationwide distribution network, it is also a means of employment generation. It is believed that for every five persons engaged in the actual manufacture of goods, there are four employed in their distribution.

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It is unfortunate that much attention has not been given to the methods and practices of distribution in our country despite improvement in production in industry and agriculture.

This paper examines how the public distribution system (PDS) in its present form has evolved in India over the years; brings to focus the major problems; and in the light of given objectives it points out implication of the future policy in this area.

#### EVOLUTION OF THE PRESENT PUBLIC DISTRIBUTION SYSTEM

Let us have a look at the experience of the PDS during the plan periods. In the First Plan, emphasis was on a system of distribution for foodgrains in cities and deficit areas. (1) The coverage of the PDS was extended during the Second Plan period from foodgrains to other essential commodities and raw materials. (2)

(1) "The system of food controls to be maintained has to be related to the needs of the urban and other highly deficit areas. This means that cities and towns above a certain size - which might vary according to local conditions in each State - must be statutorily rationed and the needs of highly deficit areas like Travancore-Cochin must be similarly looked after."(emphasis added). See INDIA, Planning Commission, First Five Year Plan, p. 182.

(2) "The maintenance by Government of an adequate foodgrains reserve at all times so as to be able to meet an adverse situation effectively and promptly is a necessary safeguard against the inflationary pressures implicit in a big developmental programme. In principle, this applies not only to foodgrains but also to important raw materials and a few other consumer goods."(emphasis added) See INDIA, Planning Commission, Second Five Year Plan, p. 40.

The Third Plan stressed the importance of public procurement and distribution system for the broader objective of price stabilization. The approach was to introduce institutional changes in the private trade mechanism by expanding coverage of consumer cooperatives. <sup>(3)</sup>

The Fourth Plan further aimed to broaden its scope to cover rural areas, include other goods of mass consumption, and distribute them with the help of cooperatives stores. <sup>(4)</sup>

The Fifth Plan advocated an effective public distribution system for foodgrains and other essential commodities and related it with price, incomes and wages policy. <sup>(5)</sup>

(3) "A network of cooperative and governmental agencies close to the farmer, licensing and regulation of wholesale trade, extension of State trading in suitable directions and a considerable sharing by Government and cooperatives in distribution arrangements at retail stage are essential for the success of purchase and sale operations for stabilising prices and correcting seasonal and regional variations." (emphasis added), See INDIA, Planning Commission, Third Five Year Plan, p.131

(4) "The cooperative consumer stores can play a crucial role, especially in the rural areas, if their number is increased. Attempts will be made in the Fourth Plan to promote viable cooperative shops which will depend not merely on the distribution of foodgrains under the public distribution system but have activities covering the sale of other goods of mass consumption." (emphasis added) See INDIA, Planning Commission, Fourth Five Year Plan, pp.234-235.

(5) "In ensuring registered wage increases there are essentially two mechanisms that may be deployed. One involves revisions in wages and dearness allowances at periodical intervals in keeping with changing prices of essential consumer goods and also on the basis of record productivity growth. The other method would consist of pegging the prices of essential commodities at relatively low levels for ensuring supplies of reasonable quantities THROUGH A system of public distribution, obviating the need for very frequent changes in dearness allowances and wages.

The Draft Five Year Plan 1978-81 points towards further expansion of the PDS and proposes to cover more items, increase distribution outlets and encourages cooperative outlets.

(6)

From the plan documents, it emerges that the emphasis on PDS has been becoming more pronounced and more specific and the consideration or expectation has been changing from food to other items; from urban to rural; from rich to poor; from intervention to institutional change and from private trade to co-operatives.

The need for a PDS, as an effective instrument of price stabilization in the national economy was felt for the first time during second world war. The foodgrains policy committee in 1943 recommended setting up of a procurement

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There are considerable advantages of the latter system, provided two essential conditions are fulfilled. First of all, a system of public distribution must avoid any sizeable subsidies on the public exchequer, which would otherwise eat into the resources needed for investment. This, in turn, would require that a reasonable quantity of the required commodity must be obtained at prices which will lie below the 'open market' prices. Furthermore, it is essential to make sure that distribution costs are kept as low as possible. The second prerequisite is that the list of essential commodities to be made available through the public distribution system should be reasonably small and the commodities must be homogenous in character." (emphasis added) See INDIA, Planning Commission, Draft Fifth Plan, Vol. I, p. 24

(6) In the case of consumer goods, the public distribution system is already operative. It covers foodgrains, sugar, kerosene and controlled cloth. It is proposed to expand the coverage to include pulses and edible oil. Cooperative outlets are also to be encouraged to include in their operations, according to local demands, other consumer products such as salt, matches, tea, soap, common drugs, exercise books, ready-made garments and standard footwear. The total number of

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and rationing machinery by the government to meet the war-time situation, complicated by the Bengal famine of 1943. (7)

The Ashoka Mehta Foodgrains Enquiry Committee, (1957) had argued for a measure of relief to consumers through assuring them the benefit of Government procurement operations at reasonable rates by selling foodgrains through fair-price shops or modified ration shops or through institutions like cooperative societies or employers' organizations. (8)

Mohan Dharia Committee on Essential Commodities and Articles of Mass Consumption (1973) is more specific in its identification of the mass consumer goods as also it relates the PDS to the broader socio-economic objectives.

The report argues that if the national objective of growth with stability and social justice was to be realised, it would be necessary for the Government to assume responsibility for assured availability of essential commodities and articles of consumption to the common man at reasonable prices. The committee suggested the inclusion of ten essential items in the PDS. (9)

(1) Course cereals, (2) Pulses, (3) Sugar, (4) Vanaspati and processed edible oils, (5) Milk, (6) Common clothing, (7) Standard footwear, (8) Kerosene Oil and commercial, domestic fuels, (9) Standard washing materials and (10) School text books.

public distribution outlets will be increased particularly to serve the rural poor more adequately. See INDIA, Planning Commission, Draft Five Year Plan - 1978-83, Vol. I, p. 33.

(7) Report of the Foodgrains Enquiry Committee, 1943 (Chairman: Sir Theodore Gregory).

(8) Report of the Foodgrains Enquiry Committee, 1957, Ministry of Food & Agriculture (Department of Food) Government of India (p. 96), (Chairman: Asoka Mehta)

(9) Committee on Essential Commodities and Articles of Mass Consumption Report, Planning Commission, Government of India, December 1973, (pp. I, ii), (Chairman: Mohan Dharia).

Table 1\*  
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INDIA: FOODGRAIN PRODUCTION, PROCUREMENT, IMPORTS,  
ISSUES, STOCKS, PRICES AND RELATED DATA

1950 - 1976

Calendar Year	Production <sup>1/</sup>	Procurement <sup>2/</sup>	Imports	Issues	Closing Stocks with Govt. <sup>3/</sup>	Per Capita Availability <sup>4/</sup>
	Million Tons	Million Tons	Million Tons	Million Tons	000' Tons	Grammes per Day
1951	50.8	3.5	4.5	8.0	1.2	367
1952	52.0	3.5	3.9	6.8	1.0	361
1953	59.2	2.1	2.0	6.6	1.3	394
1954	69.8	1.4	0.8	2.2	1.7	451
1955	68.1	0.1	0.6	1.6	0.9	429
1956	66.9	neg.	1.4	2.1	0.3	412
1957	69.9	0.2	3.6	3.1	1.2	431
1958	64.3	0.5	3.2	6.0	0.9	393
1959	77.1	1.8	3.9	5.2	1.4	439
1960	76.7	1.3	3.1	4.9	1.8	442
1961	82.0	0.5	3.5	4.6	1.6	469
1962	82.7	0.5	3.6	4.4	1.3	462
1963	80.2	0.8	4.6	5.2	1.3	462
1964	80.6	1.4	6.3	8.7	1.0	433
1965	89.4	4.0	7.5	10.1	1.9	528
1966	72.1	4.0	10.6	14.1	1.8	410
1967	74.2	4.5	8.7	13.2	1.7	431
1968	95.1	6.8	3.7	10.2	3.9	460
1969	94.0	6.6	3.9	9.4	6.4	446
1970	99.3	6.7	3.6	8.8	5.3	437
1971	108.4	8.9	2.1	7.8	7.0	470
1972	101.2	7.7	0.5	11.4	3.4	473
1973	97.0	8.4	3.6	11.4	2.0	423
1974	106.7	5.6	4.8	10.4	7.1	474
1975	101.1	9.4	7.4	11.1	7.1	474
1976	120.8	12.7	6.5	9.2	16.8	459
1977	IBRD provisional estimates	111.0	0.2			

1/ Production of foodgrains (cereals and pulses) in million tons during agricultural year (July-June) ending in Calendar year shown. Data fully revised up to 1965/66, final estimates to 1975/76. Bulletin of Food Statistics and Ministry of Agriculture.

2/ Internal procurement of foodgrains on government (both state and centre) account during Calendar year. Bulletin of Food Statistics and Ministry of Agriculture.

3/ Government held stocks at the end of December. Bulletin of Food Statistics, Ministry of Agriculture. Closing stocks do not always equal opening stocks plus procurement plus imports minus distribution for unknown reasons.

4/ Gross production minus 12.5% for seed food and waste plus imports plus net withdrawals from stocks divided by mid-year population.

\* Table 1 is reproduced from India's Occasional Papers, World Bank Staff Working Paper No. 279, November 1978.

Table 1

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INDIA: FOODGRAIN PRODUCTION, PROCUREMENT, IMPORTS,  
ISSUES, STOCKS, PRICES AND RELATED DATA

1950 - 1976

Per Capita Net Production	Procurement as a % of Production	Imports as a % of Foodgrain Available	Imports as a % of Gross Production	Index of Wholesale Prices - Foodgrains <sup>5/</sup>	% Change in Index of Wholesale Prices - Foodgrains	Terms of Trade - Foodgrains vs. Manufacturing Prices <sup>6/</sup>	Government Induced Changes in Net Availability	
							1951/52=100	Million Tons
Grammes per day	%	%	%	1951/52=100	%		1951/52=100	
335	7.3	9.9	9.4	103	-	106	-	4.2
337	6.7	8.0	7.3	99	3.9	120	-	3.3
377	3.3	3.7	3.4	100	1.0	123	-	2.3
437	2.0	1.3	1.1	81	15.0	100	-	0.6
418	0.1	1.0	0.9	70	13.5	87	-	1.4
402	neg.	2.3	2.1	80	28.6	105	-	2.0
413	0.4	5.6	5.2	99	10.0	114	-	2.7
372	0.8	3.4	3.0	103	4.0	118	-	3.3
432	2.3	5.3	5.1	104	1.0	117	-	3.4
426	1.7	7.2	6.5	103	1.0	103	-	3.7
445	0.6	4.6	4.3	100	3.0	100	-	3.7
439	0.6	4.7	4.4	105	5.0	102	-	3.9
416	1.0	6.1	5.7	113	9.5	109	-	4.6
409	1.7	8.1	7.8	106	27.0	133	-	7.6
489	4.5	8.1	8.4	156	5.3	132	-	6.5
352	5.5	14.1	14.4	183	18.8	146	-	10.3
353	8.1	11.8	11.7	228	24.5	177	-	8.8
462	7.2	6.6	6.0	201	11.8	151	-	3.2
420	6.8	4.6	4.1	208	3.5	149	-	3.4
442	6.7	4.0	3.6	206	1.0	138	-	2.7
472	8.2	2.2	1.9	211	4.4	134	-	0.3
469	7.3	0.5	0.5	248	15.3	147	-	5.0
405	8.7	4.0	3.7	295	19.4	156	-	4.1
428	5.3	5.0	4.5	401	33.3	164	-	5.2
406	9.3	8.2	7.3	388	8.2	145	-	2.2
468	10.5	6.4	5.4	343	15.0	n.a.	-	4.0

<sup>5/</sup> Indices of wholesale prices from Reserve Bank of India as published in several sources. Series from 1961 onwards in Indian Fiscal year (April to March) starting in year shown. Previous to 1961 series is on a Calendar year basis and originally used 1932-33 as a base but was spliced to later series with 1961 = 100. Figure for 1976/77 is average of first eleven months.

<sup>6/</sup> The index of wholesale prices for manufacturers is on a fiscal year basis from 1961 onwards. This later series includes chemicals, transport equipment and finished products. Before 1961 it is on a Calendar year basis and is the regular manufacturers' series, which excludes chemicals and transport equipment but included intermediate products. Earlier series was originally in a 1932/33 base and was spliced to the later base.

Having reviewed the major policy statements, let us have a look at the physical progress made so far. Foodgrains being the major item distributed so far, we shall examine the foodgrain statistics for the past few years. Table I gives the figures for production, procurement, issues, imports etc. for years 1951-1977 and Table II gives the number of distribution outlets and population covered by PDS for years 1968-1977.

Table II  
Fair Price Shops/Ration Shops

Year (1)	Number of fair price shops/ration shops at the end of the year. (2)	Population covered (In lakhs). (3)	Estimated annual population on 1st July for Cal. year (In lakhs) (4)
1968	140,402	N.A.	-
1969	138,777	N.A.	-
1970	122,038	N.A.	-
1971	121,032	2,994.7	5,512.3
1972	165,081	4,116.9	5,635.3
1973	200,655	4,352.5	5,758.9
1974	221,724	4,413.6	5,883.0
1975	240,210	4,694.7	6,007.6
1976	236,196	5,659.9	6,132.7
1977	238,622	5,890.0	6,258.2

N.A. - Not available

(a) Includes private running shops and Multipurpose Co-operative Societies.

(b) Provisional

Note. Figures of population given in the above table are inclusive of floating population, as such figures of population in respect of some of the States are more than those given under Table No 1.2.

Source: Deptt. of Food (Ministry of Agriculture and Irrigation).

Some of the conclusions that can be drawn from these tables are summed up below:

- i) Per capita availability of foodgrains has increased in the period considered, but there have been large yearly fluctuations; the lowest and the highest per capita availability being 361 grammes per day and 526 grammes per day respectively. The government through the PDS has tried to augment the availability of foodgrains depending upon the indigenous production. In years of low production e.g. 1966 and 1967, the government intervention had the highest effect. But in general, one could say, that during the review period, stabilization of consumption was not achieved.
- ii) Government procurement has been increasing over the years, both in absolute terms and as a fraction of production, but it has not been sufficient to prevent imports, which have been fluctuating from year to year, the highest being in 1966-1967, because of bad crops.
- iii) The number of distribution outlets over the last decade have increased and has the population covered by PDS. Atleast, on paper, 94% of the total population was covered by PDS in 1977 (the highest so far). But in practice, the actual

number of people who made use of PDS was much less.

This is evident from the fact that the government procurement over the years 1951-77 never exceeded 10% of the production. The highest issues through PDS were in 1966 which was less than 20% of the total production. A rough estimate of the marketable surplus available is 35% of the total production.

- iv) The wholesale foodgrain prices show a rising trend in the period 1951-77 with large fluctuations from year to year. This means much more needs to be done to achieve stabilization of prices.
- v) India has been a net importer of foodgrains during the review period, the imports as a percentage of foodgrains available varying from a low of 0.5 to a high of 14.1. Although this explodes the myth that Indian people have been fed by the developed western countries, it does show the extent of dependence upon imported foodgrains, all these years.

Since 1977, there appears to be a check on this trend.

Thus, though a variety of expectations have been raised, it has neither been possible to arrest the overall price rise nor met the basic needs of the vulnerable sections of the society. De facto, except Kerala, Gujarat, West Bengal and Maharashtra, the response has been inadequate and restricted and the foodgrains has been the main stay of the PDS. In contrast to the general thrust, the policy followed by the government has been to relax when the food availability is good and take stringent measures such as rationing, zoning and increased imports when domestic supplies are short and prices are high. In fact civil supplies departments are not permanent and have been disbanded in some states in the times of easy availability of supplies and of course reorganized later at the time of scarcities.

#### EXAMINATION OF THE PROBLEM AT THE NATIONAL AND STATE LEVEL

A few studies that examine PDS at the national level either try to estimate the quantum of public distribution requirements of foodgrains based on the assumption of the areas and population to be covered and their minimum requirement per unit ( NCA<sup>(10)</sup> and Gulati and Krishnan<sup>(11)</sup> ), or the transfers required from the surplus states to the deficit states

(10) National Commission on Agriculture, Interim Report on Agricultural Price Policy, Feb. 1975.

at regulated prices (Vyas and Bandhopadhyay<sup>(12)</sup>). Another comprehensive study which examines PDS at national level (Gupta<sup>(13)</sup>) considers protecting the vulnerable section as the objectives of PDS and identifies two broad approaches to meet this objective - i) the Government ensures sufficient levels of foodgrains supply, through imports if necessary, to maintain stable prices, and ii) a statutory protective umbrella extended to the most vulnerable class. The requirements for the first approach are estimated through an econometric model developed in the study, and the same for the second approach are worked out for different levels of consumption. The estimates of the requirements suggest that PDS operations should be at a level substantially higher than in the past. In view of the administrative difficulties that would arise in increasing the level of PDS operations, a 'compromise'

(11) Gulati, I.S. and Krishnan T.N. Public Distribution and Procurement of Foodgrains: A Proposal, Economic and Political Weekly, May 24, 1975.

(12) Vyas V.S. and S.C. Bandhopadhyay: National Food Policy in the Framework of a National Food Budget, Economic & Political Weekly, March 29, 1977.

(13) Gupta Arvind: Public Distribution of Foodgrains in India, Centre for Management in Agriculture, Indian Institute of Management, Ahmedabad, 1977.

approach is recommended, which incorporates the extension of the statutory rationing scheme for the urban areas. It is also argued that the subsidy under statutory rationing should be made available to the vulnerable section only, implying a discriminatory pricing policy. However, the study argues that this approach can only marginally improve the situation, and in the coming years the Government would have to make a choice from the two broad approaches suggested earlier.

In addition, a few state-level studies on Kerala, Gujarat and West Bengal are also available. A significant finding of of Kerala Study<sup>(14)</sup> is that a sound PDS should not be simply based on standard items of food-grains but should take into account the availability of the local substitutes. The role of tapioca - a local cereal, which was outside the PDS was found particularly important, since a major share of its increased availability went to the poorest sections, offsetting thereby the adverse effects of decline in per capita availability of the cereal in the state.

The Gujarat study<sup>(15)</sup> deals with the geographical location of the public distribution apparatus and the identification

(14) Centre for Development Studies Trivandrum, Poverty Unemployment and Development Policy - A Case Study of selected issues with reference to Kerala, Vol.1, March 1975.

(15) Report of the Committee on Economics of the Public Distribution System. Food & Civil Supplies Deptt, Govt. of Gujarat, 1975. (Chairman: Y.K. Alagh).

of the vulnerable sections of population. Gujrat has one of the most extensive PDS for foodgrains - covering 98% of the total population. The study finds that the fair price shops are located to cover fixed units of population per fair price shop and recommends that these shops should be instead, related to vulnerable sections and not total population. Also, the study suggests certain criteria for the exclusion of certain sections of population from the PDS, on the following basis.

- (a) Ownership of consumer durables such as cars, refrigerators and motorcycles or scooters;
- (b) Payment of education cess in urban areas at the rate of 5 per cent of letting value and above;
- (c) Residence in a rented house with a monthly rental of Rs.150/- and above;
- (d) Households, other than Scheduled Castes and Scheduled Tribes engaged in the cultivation of cotton, groundnut, tobacco, isabgol, cummin, potatoes and horticultural crops;
- (e) Households, other than Scheduled Castes and Scheduled Tribes having irrigation facilities; and
- (f) All other households, other than Scheduled Castes and Scheduled Tribes, owning 2 or more hectares of land.

The West Bengal Study<sup>(16)</sup> covering 1952-73 period finds that although the total availability of food-grains was always adequate to meet the minimum nutritional requirements

(16) Sen, A. and N. Bandhpadhya: Problems of Public Distribution of Food in West Bengal. A note for discussion at the Seminar of ICSSR 1975.

of 453 gms per adult per day, the purchasing power of the rural poor was adequate only to buy 388 gms of food-grains per adult per day. Another finding of the study is that despite increase in production, the level of procurement has been declining. This is partly because of the change in production pattern. Whereas the procurement is confined to aman crop (winter rice), the increase in production has been in boro (summer rice).

In addition to the above national and state level studies, there are a number of other studies and papers available on the subject. Some of their findings, suggestions and ideas, worthnoting, are summarized below:

- \* Many studies suggest that there is a substantial degree of evasion in the trade levy system because of the holding capacity of large farmers. The producers levy is found more effective than other forms. It has been suggested that evasion could be reduced if levy is on family holding basis, in a graded manner, for all areas irrigated as well as rainfed, and for all crops and not only for wheat and rice. On the other hand, it is also realized that producer levy is more difficult to implement as agriculturists have a strong political lobby.

(17) Bardhan Kalpans: ICSSR Discussion Paper, Problems relating to Public Distribution of Foodgrains. 1975.

Zoning (cordoning of surplus areas) becomes necessary for procurement but it has been suggested that it should be resorted to only for short periods during post harvest seasons and should be relaxed after procurement targets have been achieved.

Prices of food-grains fluctuate from year to year because of variations in production mainly due to availability of water. The proportionality of increase in prices due to drop in production is higher than the decrease in prices due to rise in production. Also, in recent years, the prices have been not so much related to production, but appear to be related more to the support procurement price fixed by the government than any other factor. Of course, the cost of production is another important factor determining prices.

Buffer stocks are necessary for achieving price stability and mitigating speculation by private trade.

As an alternative to the levy system, a few other suggestions have been made for procurement. Vinoba Bhave suggested that land revenue should be collected in terms of food-grains. An other suggestion is for tying up the supplies of inputs (such as irrigation, fertilisers, seeds, diesel etc.) with grain deliveries by farmers. The combination of the two above suggestions is found in B.S. Minhas' concept of 'food-money'. The

tying up of fertiliser supply, land revenue payment and food-grain sales in terms of food-money could facilitate, according to Minhas, procurement of 10 million tonnes for the PDS. A completely different and comprehensive suggestion has been made by V.M. Dandekar. He has proposed a scheme of socialized food-grain marketing on a decentralised basis consisting mainly of agricultural marketing boards, one for each district, or subdivision representing the interests of farmers, rural landless labourers and urban consumers. Thus, a federation of district and state boards, will be the sale agencies for inter-district transactions across the country which will be carried out at mutually agreed prices that should be published so as to ensure market integration and uniformity of prices (subject to transport costs) all over the country.

Thus though there have been generalized sympathies with PDS, a concrete program at national level other than sugar, has never been tried. The experiments with PDS to meet the entire market demand for food-grains and other items of mass consumption through the PDS (e.g. wheat-trade take over in 1973) did not succeed because of the absence of the clear objectives. Also, it is established, beyond doubt, that it is not advisable to leave the lot of the common man entirely to the private trade. Hence, there is need for clarification in defining objectives of PDS, and specifying a framework for future policy.

### OBJECTIVE OF PDS

The nature and size of PDS will necessarily depend on the kind of objective that we set. The two broad possible objectives of PDS could be

- i) to ensure minimum needs of the vulnerable sections at a price, reasonable within their means,
- ii) to achieve price stability

Although a long-term strategy would be to develop an extended and comprehensive PDS to achieve both the objectives, the immediate strategy should be to achieve the first objective viz ensuring minimum needs of the vulnerable sections of the society. In a country where 46% people are below poverty line and in the light of national objective of removal of poverty, the author assumes the former as the immediate objective and the latter as the long-term objective. This becomes the only option at this stage of the national economy, where remunerative prices to producers must be maintained for continuing the sustained growth in production but in the light of glaring poverty, the basic minimum needs of the poor have also to be met. Given this objective of the PDS, let us ask some relevant questions in the light of the past experience.

### RELEVANT QUESTIONS

Our past experience with the PDS has brought certain problems to light. These problems raise a number of issues.

- 1) Given the assumption that the PDS has brought certain

1) Given the assumption that the PDS should ensure minimum needs of vulnerable sections of the population, there is no agreement on the criteria for identifying the vulnerable sections. The criteria worth considering may be:

- a) Per capita income;
- b) Scarcity areas;
- c) Urban areas;
- d) Drought-prone areas;
- e) Flood-affected areas; and
- f) Any other criteria.

The question then is - what are the most suitable criteria for identifying weaker sections?

2) According to the Essential Commodities Act, the definition of essential commodities has a wide coverage including items such as cattle fodder, coal, automobiles parts, cotton and woollen textiles drugs, foodstuffs, iron and steel, paper petroleum products, raw cotton, raw jute and a number of other items. Obviously, there should be no justification to include all items covered in the act, in the context of a PDS for protecting weaker sections. There is a need for identification of items to be covered by PDS. Also, the items vary from region to region and their average quantities of consumption vary. It calls for the assessment of the minimum

requirements of the sections to be covered, matching supply and demand on a regional basis.

3) There are difficulties in procurement, storage, and movement. The experience of the government in procurement of food-grains in periods of scarcities has been rather dismal, the present food-grains surplus of 18 million tonnes or more being an exception and one bad crop (the difference in production between 1975 and 1976 was 19.7 million tonnes) can wipe off our reserves. The marketed surplus has been inadequate and had to be invariably supplemented through imports.

There exists a general inadequacy of good storage facilities in urban as well as in rural areas, both in terms of warehousing capacity and protection of the food-grains against dampness weevils and other pests.<sup>(18)</sup> The existing godown capacity is only 12 million tonnes against 20 million tonnes of buffer stock. The remaining 8 million tonnes of foodgrains are stored under polythene covers(CAP).

Transport is another weak link in the PDS, as it raises serious problems of movement of marketable surplus from one region to another. There are heavy losses in transit.

4.) Fair Price Shops, ration shops, and consumer co-operatives- the most commonly used methods of distribution, appear to suffer from certain ills raising a number of questions that need to be examined:

(18) Jain S.C., Principles Practice of Agricultural Marketing & Prices, Vora & Co., 1971.(pp.270).

- i) Is the system of ration cards convenient? The needy and the poor are illiterate and don't know where and how ration cards are made. Even if they make it to the rationing office, the procedure for getting cards made is so complicated and time consuming, that the poor people, specially the ones who live on their daily earnings can ill-afford to make a number of visits to the office. Can the present system of ration cards be improved?
- ii) Existence of a large number of bogus ration cards lead to considerable misuse of the public distribution system. In 1976, during emergency, under an intensive campaign the government announced that seven million spurious cards had been discovered and eliminated from the system. (19) Can something be done about the ghost ration cards?
- iii) The prices of the commodities distributed through fair price shops are lower than those prevailing in the open market. The dual system of pricing may lead to black market through arbitrage as the fair price shop owners could divert part of their stocks to the open market where they can sell it at higher price and make profits. They may be able to do so because of the following three possible reasons:

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(19) Times of India Sept. 1, 1977

- a) Many card holders may not make use of their full or partial quota entitled to them.
- b) The fair price shop owners may adulterate the quality of goods distributed.
- c) The fair price shop owners may declare the commodities 'out of stock' to the card holders whereas actually they have sold it to the market. It may be worth investigating the difference between the quota allotted to the fair price shops and the actual off-take.
- iv) Although the prices charged at the fair price shops are lower than the market prices, they may still be too high for the very poor sections of the society. Because of extreme poverty, the very poor people have a low purchasing power. As a result, such sections cannot make use of fair price shops since they are always short of cash. Instead, would they not prefer to buy high priced gain from the local bania on credit? Can this be overcome by giving consumption loans or by extending food for work programme? Or is there any other method of providing relief to such sections?
- v) Although 77% of the distribution outlets are in rural areas, urban areas and deficit regions are said to account for major offtake from the PDS.

In fact, a large number of poor people live in rural areas as also in surplus regions. Most of them are landless labour. The public distribution thus has, so far, played a very limited role. What are the problems of extending the PDS to rural areas and how to solve them? One of the reasons - generally given for not extending fair price shops in rural areas is that they are not viable because of lack of demand. An analysis based on NSS (18th round) data refutes this hypothesis.<sup>(20)</sup> The following table gives results for three states.

MARKET DEPENDENCE OF RURAL HOUSEHOLDS FOR FOODGRAINS			
Class	Andhra Pradesh	Maharashtra	Rajasthan
Producer households	34.7	34.7	26.6
Agricultural Labour households possessing less than 2.5 acres of land.	81.2	82.4	87.0
Agricultural Labour households without any land	99.4	97.6	74.0
All classes	53.5	49.4	29.3

Source: Agricultural Prices Commission, Government of India, Report on the Price Policy for Kharif Cereals for the 1968-69 Season.

(20) Mitra Ashok, Terms of Trade and Class Relations, Frank Cass, 1977 (p.120).

The above table shows that market dependence of the rural landless labour for foodgrains was 99.4% in Andhra Pradesh, 97.6% in Maharashtra and 74% in Rajasthan. This leaves little doubt that the demand in rural areas specially amongs-t the poor is very high and PDS can play a substantial role in rural areas.

- vi) In the areas covered by PDS, many times, it is found that the fair price shops, the super bazars and govt. co-operatives are concentrated in posh localities. The poorer pockets are either bypassed or shops are located at long distances causing inconvenience to the poorer people. The study on the PDS in the Gujarat State (1975) brings out that the distribution of fair price shops is related to the total population in the State. A similar situation seems to prevail in other states. What should be the optimum criteria for locating fair price shops or other retail points?
- vii) Fair price shops have been generally criticized for poor quality of supplies and short weighments. Also, some items are frequently out of stock. To buy two items many times, one would have to make two trips on two different days.. In a sarcastic

vein, the department of civil supplies has been called an uncivil department of short supplies.

How can these problems be overcome?

- viii) The existing PDS does not take into account effect of seasonalities in the supply and demand of food-grains. This may be an important factor in rural areas where demand for food-grains by the landless and the marginal farmers exists only during the agriculturally lean periods which may vary from 3 to 6 months.
- ix) The ration per head is invariably uniform for all sections of population. This may not be an equitable system as most poor people generally have to do physical labour and their consumption of other food items being low, they would need more food-grain and therefore higher units of ration per head. The degree of inequity may become still higher, because the price increase per unit of food consumed by the poor and not supplied by the fair price shops would perhaps be higher than the general increase in food-prices. Would a differential method of quantum of ration per head be more suitable?
- x) Average turn-over per shop has declined from 92 M Tonnes in 1965 to 48 M Tonnes in 1975. What are the reasons for such a decline in off-take and what can be done to reverse such a trend?

#### IMPLICATIONS FOR FUTURE POLICY

It should be clear from what has been said so far that policies for procurement, price support, movement and buffer stock are interlinked with the policy of PDS. In the past, ad-hoc measures have been adopted to meet the immediate crises from time to time and an overall policy perspective has been lacking. However, it appears, for the first time, the government has the intentions of launching a comprehensive and lasting production - cum- distribution system throughout the country from July 1, 1979. <sup>(21)</sup> The scheme proposes to initially cover food-grains (wheat, rice and coarse grains), processed edible oils, common clothing, kerosene and soft cake. More commodities and manufactured articles would be added to the list from time to time on the recommendation of the committee set up by the Union Cabinet for the purpose. The proposal is to increase the immediate production of the items covered by the scheme on a priority basis. The scheme envisages establishment of one shop for a population of about 2000 in most areas and about 1000 in certain areas such as hilly regions. A novel feature of the scheme is the proposal of setting up a consumer advisory committee for every fair price shop consisting of ration-card holders in the locality. Such a committee would oversee the working of the shop. Also, the strength of the existing 2.40 lakh shops (1.8 lakh private fair shops and 0.6 lakh cooperatives)

(21) Policy on Production and Distribution of Essential Commodities. Paper circulated in the Chief Ministers Conference held on January 5, 1979.

is to be increased to 3.5 lakhs. For new shops, although the preference would be given to the cooperative sector, private shops would be allowed to function as long as they observed the norms. The expanded PDS is expected to make available subsidized essential items at a uniform price, throughout the country.

Now let us evaluate the proposed PDS on the basis of questions raised earlier in this paper. The objective of the new system is laid out as "seeking to create a permanent distribution mechanism that would aid and guide allocation of mass consumption items to all sections of the society in a fair and equitable manner so that the unorganized sections of the society did not become victims of blind market forces".<sup>(22)</sup>

The attempt to create a permanent PDS is certainly laudable as one of the main weaknesses in the past has been the absence of it. The concept of a lasting system is of course welcome, but it is not clear from the details of the scheme available, how it would achieve the objective of protecting the unorganized section of the society from blind market forces, in the face of problems associated with the functioning of fair price shops such as system of ration cards, kind of items covered, location of shops, quality of items distributed,

(22) Economic Times, New Delhi, Saturday, January 6, 1979.

low purchasing power of weaker sections; and continuation of dual pricing. The scheme does not indicate the criteria for choosing the items. Even the initial list has certain vital items missing such as pulses - the main source of protein for the poor. There is a talk of including items such as baby food and fish. If such items get included, they along-with edible oils, rice and wheat - items already indicated in the initial list, would appear to look like the consumption basket catering the needs of the better off sections. The experience in the past has been that the PDS, through its network of shops, has been disproportionately favouring the urban groups, because of their location, kind of items distributed (wheat, sugar, maida etc.) ration-card system and host of other factors. Even the items really needed by the poorer rural groups such as controlled cloth has been said to be consumed mainly in the urban areas by well off sections not for clothing but other purposes. In the light of such experience, how is the increase in fair price shops with the kind of items indicated, going to help the weaker sections; without rationalizing their methods of working? A case in point is the present method of issuing ration cards. Why cannot the procedure be simplified to suit the convenience of consumers by using a method similar to that of voter registration for elections, where the civil supplies officials could visit the households, carry out on the spot verification and issue ration cards?

Again the scheme does not indicate what would be the total requirement of items covered and how is it going to be met? How does the system expect to meet the needs of the entire country? It may not only be the question of high subsidy involved (which in itself may be an important issue), the more serious question may be - is the government geared to raise enough supplies to meet the requirement of all sections of the society? To quote an example when wheat trade take over by the government took place in 1973, it had to be abandoned within six months since the government found out to their dismay, that it was not equipped adequately for the purpose. One can only hope that the new PDS does not meet such a fate. It may be noted that even the National Commission on Agriculture (1969) was aware of the difficulties a massive nation-wide PDS would create. While estimating the desired coverage of PDS, it suggested only a selected coverage on a regular basis in the cities and towns with population over one lakh excluding surplus areas, industrial towns, drought prone areas and flood affected areas. One may not agree with the criteria used by the NCA, but in the light of past experience, it seems reasonable to assume that a nationwide PDS is not likely to succeed, particularly, in protecting the weaker sections.

In the Indian context, it has been observed in Gupta's Study<sup>(23)</sup> that even during the years of abundant PDS supplies, the

(23) Gupta, Arvind, Public Distribution of Foodgrains in India Centre for Management in Agriculture, IIMA, 1977.

economically vulnerable sections could not be protected from erosion in food-grain consumption. In the same study using minimum standard norms of daily consumption and taking 30% of the total rural population plus 10% of the total urban population as the most vulnerable sections, it has worked out that in 1977 the minimum annual requirement for PDS to protect these sections would have been 17.75 million tonnes. This figure for exceeds the highest ever annual issues through PDS in the period 1951-1977. This only shows that in the past, PDS operations have not been able to protect even the most vulnerable sections. In the light of such an experience, to try to meet the requirements of all sections would be sheer frittering away energies without getting results. Therefore, it seems desirable to concentrate on a limited PDS covering only the weaker sections rather than attempting an ambitious PDS covering the entire population of the country. As for the subsidized items to be included, they should be determined for each region on the basis of empirical studies which would assess the minimum consumption basket of essential items needed by the weaker sections in the region. The problem of identifying the weaker sections could again be solved by a administratively convenient criterion say income or a number of criteria similar to one suggested by the Gujrat Study, cited earlier in the paper.

As worked out above, the level of present procurement would have to be substantially increased even if the requirements of only the most vulnerable sections were to be met but drastically increased if the requirements of all sections were to be met. The proposed policy is silent on the methods for achieving the higher procurement. The procurement is the most critical element of PDS and if that fails the whole PDS fails. In the good years of high agricultural production, it may not pose serious problems but in bad years, it imposes severe constraints. The proposed PDS also includes some manufactured items. The constraints in procuring such items may be much more difficult to control as most consumer manufactured items are in the private sector. This is a new venture to be undertaken by the PDS and unless a fool proof scheme is designed, it does not have a fair chance of success.

Lot of stress has been laid on regulating the activities of the fair price shops and other distribution outlets, in the proposed PDS. This is certainly an important feature and the organizational arrangements need to be made quickly and carefully. There have been glaring instances of mismanagement in the functioning of fair price shops in the past, and unless their activities are regulated, the interests of the consumers cannot be subserved. It is hoped that the consumer advisory committees proposed in the scheme are given wide

ranging authority for disciplining the shops against well known malpractices.

Another crucial point in the PDS is the economics of the distribution outlets. It has been often said that the shops do not get enough turn-over and therefore are not viable, particularly in rural areas. A rough calculation done by an earlier study<sup>(24)</sup> shows that (a) A typical fair price shop in Bombay area, makes a saving of about Rs.470 per month by selling 3 PDS items - wheat, rice and sugar, with a turnover of about Rs.48,000 p.m., involving investment of Rs.21,000. This gives a 27% return on capital which is a fair return but the net monthly income of Rs.470 is low by Bombay standards. However, considering that the shop owners also sell other grocery items (not covered by PDS), the viability can be established. However with the expanded scope of PDS, where the number of items to be covered would be more, the viability should not be a problem. In any case, this aspect should be considered while setting up distribution outlets and may need certain adjustments. For instance, in certain areas, the shops may be set up so that there is one shop for a population of more than 2000, provided it does not cause inconvenience to the consumers. In the above calculation, it also emerges that for a capital investment of Rs.21,000 a fair price shopper provides employment for 3 persons. Thus in many rural areas and pockets of high

(24) Thomas T., Distribution of Essential Commodities, Hindustan Lever Limited, June 1975.

unemployment, this may be a means of generating some extra jobs, if credit facilities can be provided to the deserving candidates. In certain cases such as remote tribal areas, where permanent shops do not have a chance of economic viability, mobile fair price shops have to be set up. Thus, the system, to be effective, will have to be flexible adjusting to the local needs and demands of the target groups in the particular area. The question of economic viability of distribution outlets is also connected with the items distributed. The view that lack of demand in the rural areas, results in small turnover making the fair price shops unviable is generally because the items covered are not the ones that have the demand. In general, for instance, it has been found that whenever coarse grains are distributed in rural areas, there is a greater demand. Thus, a host of factors have to be borne in mind in order to make the distribution outlets economically viable.

The proposed PDS like earlier schemes undertaken in past, does not take into consideration the low purchasing power of the poor and their inability to pay cash. The food for work programme being run by some state governments is a step in right direction. However, its scope is limited only to public works etc, where there is a concentration of labour. If the needy target groups have really to be helped, some bold experiments such as credit card system

would have to be tried, in addition to extending food for work programmes.

\* The present figure of 2.40 lakh distribution outlets is illusive since a large number of them are either dormant - existing only on the paper or not functioning regularly. Simply increasing the number of shops to 3.5 lakhs is not going to help the matter. Much more efforts are needed to study the problems of the shops and make them function. There is lot of talk of extending the scope of cooperative sector. Unfortunately, the overall performance of cooperative sector has been far from satisfactory. For instance, the super bazars, set up a few years ago, for the distribution of consumer goods have been totally ineffective, as they have developed an elitist orientation. The bureaucratization of the consumer cooperatives have further complicated the problems. The cooperative shops can play a significant role if they have the participation of the local people and trained manpower; and care is taken to determine their location, size and items sold, in order to change their orientation towards the average consumer. Interlinked with the success of the cooperative stores, is of course, the role played by the government in promoting wholesale cooperative organizations such as NACMF (National Agricultural Cooperative Marketing Federation), NCCF (National Cooperative Consumers Federation) and LAMPS (Large Area Multipurpose

Cooperative Society) etc., and the increased public sector participation, in the production and procurement of consumer goods.

In conclusion, the PDS to be effective should be oriented towards the economically weaker sections. At least, the essential items consumed by the poorer segments of the population and subsidized by the government should be made available only to such sections. It may be worth considering two sets of distribution outlets - one covering weaker sections and the other covering the rest of the population by introducing dual pricing in such a way as would make the rich sections subsidize the poor for minimum requirements of essential commodities. Such a system has better chances of success if the two sets of distribution outlets deal in different items or the same items of substantially different quality. At present, there are wide gaps in understanding the various facets of PDS, norms and criteria for its coverage and regional variations to be incorporated in the scheme. There is, therefore, need for undertaking a large number of field studies in different rural and urban areas of the country in order to determine the nature of PDS to suit the local conditions of each region. In particular, such studies should be aimed at the following objects:

- i) Identification of weaker sections and their consumption patterns,

- iii) Evaluation of channels of distribution in general and fair price shops in particular in terms of management and analysis of their operational cost,
- iii) Coverage of fair price shops both commodity-wise and areawise,
- iv) Profile and purchase pattern and motivations and degree of satisfaction on average consumer,
- v) Appraisal of Govt. policy, plans and procedures with reference to distribution of essential commodities.

It is only through such studies that corrective policy prescriptions can be evolved for an effective PDS having the necessary flexibility to suit the requirements of different regions.